Texas Formulary Could Reduce Costs In other States, WCRI Finds

By Joey Berlin
Southern Bureau Chief
June 27, 2014

The results of a Workers Compensation Research Institute study suggest that a closed pharmacy formulary similar to the one implemented in Texas could reduce the prevalence and costs of prescription drugs in other states.

The WCRI study, Impact of a Texas-Like Formulary in Other States, examined Texas itself and 23 other states, including some of the states that have been linked in previous studies to copious prescriptions of pain medication.

On Sept. 1, 2011, Texas became the first multi-payor state to implement a closed formulary for the workers' compensation system. The formulary went into effect on that date for new claims and became effective for legacy claims on Sept. 1, 2013.

The Texas formulary includes all drugs approved by the FDA except for investigational and experimental drugs and drugs with "N-drug" status in the current Official Disability Guidelines. Physicians may prescribe drugs that are included in the formulary without preauthorization from the payor; drugs that are excluded require prior authorization.

The WCRI study cited 2013 numbers from the Texas Department of Insurance report, which showed that new claims with non-formulary drugs that required preauthorization decreased by 67% from 2010 to 2011. Prescriptions written for non-formulary drugs decreased by about 70% for those new claims, and non-formulary drugs' share of the total prescription drug costs for new claims decreased by more than 80%. Prescriptions for drugs included in the formulary fell by 4%, and total opioid prescriptions fell by 10%.

The study, authored by Vennela Thumula and Te-Chun Liu, sought to examine whether adopting a Texas-like formulary would have a large effect in other states, whether the use of drugs that require preauthorization in Texas is common in other states and what the potential prescription cost savings would be in other states if such a formulary were implemented.

Research found that in most of the other study states, non-formulary drugs were at least as prevalent as in Texas. Sixteen states had higher percentages of all prescriptions that were for non-formulary drugs in a time period notated as "2011/2012." New York had the highest prevalence at 17%, followed by Louisiana at 16%. Missouri had the lowest percentage among studied states in that measure at around 10%.

"Considering that the prevalence of non-formulary drugs was similar to or higher than Texas in other study states, the potential impact of a formulary could be at least as large as Texas if physicians in these other states respond to the formula as Texas doctors did," the study said.

The study added that two other factors could influence the impact of a formulary in other states: how much physicians are likely to seek preauthorization and continue to prescribe non-formulary drugs, and how much they are likely to substitute drugs that do not require preauthorization in place of drugs that do.

The study presented four scenarios to illustrate the effect of a Texas-like formulary on prescription costs in other states. In Scenario A, physicians in other states would respond to a Texas-like closed formulary in a similar fashion to the way Texas physicians responded to the actual formulary, with the percentage of total prescription payments for non-formulary drugs decreasing by 80%. New York could experience a reduction in prescription costs by as much as 29%, the highest among the 23 non-Texas study states. New Jersey, Virginia, Massachusetts, Pennsylvania, Connecticut and Maryland all would have the potential to join New York in experiencing cost savings of 20% or more.

"Even at the lower end, states like California and Missouri might reduce their prescription drug spending by 14% with the adoption of a Texas-like formulary," the study said. "However, there are reasons to expect that physicians in some of these states may substitute with formulary drugs more frequently than did Texas physicians."

Scenario B featured a hypothetical in which all non-formulary drugs were substituted with other drugs. States may realize "sizeable but lower cost savings" in that scenario, according to the study. Costs would drop by between 4% and 16% in the other study states, with New York and New Jersey at the top of the list. California, Georgia, Louisiana and South Carolina would all experience savings of 5% or lower.

In Scenario C, physicians in a given study state would reduce the use of non-formulary drugs by only 25% − a fraction of the 70% use reduction Texas physicians implemented in real life. But like the Texas physicians did, physicians in the study states would execute little or no substitution of non-formulary drugs with formulary drugs. In that scenario, prescription drug costs would drop between 4% and 9% in the study states.

Lastly, Scenario D duplicates Scenario C, but with full substitution of formulary drugs in place of non-formulary drugs. Overall prescription costs would be reduced by 2% to 6%.

The study also set up scenarios to measure the impact on non-formulary drug prescriptions.
If other states had a 70% drop in non-formulary prescriptions as Texas did, non-formulary drug use percentages in other states would drop to an estimated 3% to 5% in the study states, instead of 10% to 17%.

"While it appears that states with a relatively higher percentage of non-formulary drugs, like New York and Louisiana, are likely to have a larger effect if a Texas-like formulary is adopted, states with a relatively lower percentage of these drugs could also reduce the utilization of non-formulary drugs by a least 7 percentage points (from 10% to 3%)," the study said.

Noting that his state was near the top of the list in use of non-formulary drugs, Jeffrey Napolitano, a workers' compensation defense attorney in Metairie, Louisiana, said that his state would have a lot to gain by adopting a closed formulary.

"What makes it very well-suited for Louisiana is that we just recently adopted medical treatment guidelines," Napolitano said, referring to the guidelines that went into effect in the summer of 2011. He said that thanks to the introduction of the guidelines, doctors are now used to asking for preauthorization for treatment.

“So we’ve already got all that in place for medical treatment,” Napolitano added. “So it would be extremely easy for Louisiana to adopt this for prescription medication. (The) process involved, the procedure and the whole system is already in place.”

However, Roger Paganelli, the president elect of the Pharmacists Society of the State of New York, said Thursday that he doesn’t think formularies are a good idea for workers’ compensation, “Because every injury is different depending on the age of the patient, the dosage of the drug, the type of drug.”

“This isn’t an insurance plan or a government-issued plan per se, Medicaid or Medicare, that’s controlled by the CMS," he said. "So I don’t think that it’s the type of thing where it’s a one-size-fits-all. So therefore, I don’t think that a formulary would be a good concept for workers’ comp patients.”

Paganelli, who wasn't familiar with the WCRI study, did acknowledge that his state has an issue with overprescribing.

“Every publication that I read points to the overprescribing of painkillers, especially narcotic painkillers,” he said. “And it’s really my experience at my store as well that we get a significant amount of what I would consider overprescribed pain medications.”

Alex Swedlow, president of the California Workers’ Compensation Institute, said CWCI is working on the second part of a study on opioid drugs that was recently published. Part two of the study models the formularies for both Texas and Washington State and the potential impact of a similar formulary in California. Swedlow said the study would be released in two to four weeks.

Swedlow said CWCI is “seeing some of the same things that the interstate comparison from the WCRI study has found.”

The range of potential system wide savings by leveraging the Texas system in California would be somewhere between 7% and 20% for all drugs dispensed in the Golden State. He said the Washington system was even more aggressive because it includes the ability to negotiate prices, with potential savings from 26% to 50%.

“A formulary has the potential to significantly reduce payments for opioids by controlling the variety of drugs that are available and to help negotiate preferred pricing for Schedule II and Schedule III opioids, as well as all the other types of drugs in the system,” he said.

(Reprinted by permission, WorkCompCentral.com)